

Property Taxes

A variety of tax-reducing ballot Measures passed since 1990 have changed the way that property taxes are raised in Oregon. Measure 5, passed in 1990, introduced tax rate limits. The 1997 Legislature drafted Measure 50 in response to Measure 47, passed in 1996. Measure 50 corrected a number of technical problems with Measure 47, while replicating its tax cuts. Measure 50 cut taxes, introduced assessed value growth limits, and replaced most tax *levies* (an amount) with permanent tax *rates*.¹

Before Measure 5

Under the old system, the process of calculating and declaring the amount of taxes to be raised from taxpayers was termed “making the levy.” A jurisdiction estimated its budgetary needs, or the “levy”, and the County assessor estimated the real market values of all property in the taxing district. The levy for each taxing district was then divided by the total real market value in the district to arrive at a district tax rate. The taxes imposed by each district equaled the rate multiplied by its real market value. Most levies were constitutionally limited to an annual growth rate of 6%, and levies that increased by more than 6% required voter approval.

The annual growth in taxes on an individual property depended on a number of factors, including new or larger levies and the amount of new construction within a district. If new construction did not occur, and property values did not change, than growth in levies meant taxes increased for individual properties.

Measure 5

Measure 5 introduced limits on the taxes paid by individual properties. It imposed limits of \$5 per \$1,000 real market value for school taxes and \$10 per \$1,000 real market value for general government taxes. These limits apply only to operating taxes, not bonds. When it was fully implemented, Measure 5 cut tax rates an average of 51% from their 1990-91 levels.

Measure 50

Measure 47 was passed by Oregon voters in 1996. It would have rolled back property taxes to 90% of the 1995-96 levels. Measure 50 was written to correct some of Measure 47’s technical problems, and superseded Measure 47. The objective of Measure 50 was to reduce property taxes and to control their future growth. To do so, it made three fundamental changes:

- Switching to permanent property tax rates
- Reducing assessed values

¹ Most of this discussion is based on Appendix B in *Oregon Property Tax Statistics, Fiscal Year 2002-03*, prepared by the Research Section of the Oregon Department of Revenue.

- Limiting annual growth of assessed value.

Under Measure 50, most levies were replaced by permanent tax rates. The permanent rate is fixed, it does not change from year to year. Taxes from the permanent rates, typically referred to as operating taxes, are used to fund the general operating budgets of the taxing districts.

In addition to the permanent rate, taxing districts may impose bond levies and local option levies. Bond levies have remained largely unchanged. They are used to pay principal and interest for bonded debt, typically for capital (infrastructure) improvements. Bond levies typically are approved in terms of dollars, and the rates are calculated as the total levy divided by the assessed value in the district. Local option levies are operating levies that can be passed by local governments to raise revenue beyond the permanent rate amounts. Local option taxes are the only way taxing districts can raise operating revenue beyond the permanent rate amount. Even so, these taxes are the first to be reduced if the Measure 5 limitations are exceeded. Local option levies may be approved either in rate or dollar terms.

Measure 50 requires that bond and local option levies, in elections other than general elections, be approved by a “double majority,” where a majority of voters with at least 50% of all registered voters actually voting.

Measure 50 changed the concepts of “assessed values” and “tax rates”. Assessed value no longer equals real market value. For 1997-98, the assessed value of every property was reduced to 90% of its 1995-96 assessed value. From 1998-99 onward, assessed value growth is limited to 3% per year. For existing property, Measure 50 limited the annual growth in assessed value to 3%. For new properties, assessed value is calculated by multiplying the ratio of assessed to real market value for similar property in the county by that property’s real market value. For example, if the ratio of assessed to real market value for residential property in a given county is 0.8, then the assessed value for a new house would be 80% of its real market value. Measure 50 also stipulates that assessed value may not exceed real market value. If the real market value of a property falls below its assessed value, the taxable value will be set at the real market value. Because growth in value has not been uniform throughout the state, this change had varying impacts. Properties that had experienced the greatest value growth since 1995-96 have received the greatest cuts in assessed value, and consequently in taxes.

The county assessor now computes tax rates for local option levies, bond levies, and urban renewal levies, then adds those rates to the permanent rates, to compute the total rate to be extended to a property. The tax extended to a property is the total tax rate times the assessed value of the property. While property tax rates under Measure 50 are applied to a property’s assessed value, the Measure 5 rate limits apply to real market value. Prior to Measure 50, this distinction was unnecessary because assessed value equaled real market value.

Measure 50 has constrained how much revenue a City can raise through property taxes. It has also controlled how much the assessed value of property in a City can grow. It can only grow 3% per year, regardless of how much real market values have

grown. Although housing prices in Eugene have risen at a much higher rate than 3% annually, the assessed value is constrained to the 3% growth rate.